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Senator Judd Gregg's Floor Remarks on 4th Anniversary of the Jobs and Growth Tax Relief Reconciliation Act of 2003
(Unofficial Transcript)

Mr.Gregg: First, I want to thank the Senator from Texas for his eloquent statement and his accurate statement. And I want to pick up where the Senator has left off.

The Senator talks about the fact -- and this is a fact -- that revenues to the federal government have jumped dramatically, dramatically in the last three years. In fact, in the last three years we've seen more revenues flowing into the federal government than ever in history, and the percentage of increase of those revenues has also been historic, as this chart clearly shows. We are now seeing revenues to the federal government which actually exceed the historic revenues to this government. Historically, the federal government has gotten about 18.2% of Gross National Product in revenue. Today we're up around 18.5%. We're headed towards 18.7%. That's significant increase in revenues to the federal government.

What effect does that have? As the Senator from Texas said, it's had a dramatic effect on the deficit. It has caused the deficit to drop dramatically. Now, the other side of the aisle argues, 'Well, so what, taxes are still too low on Americans. We should raise the taxes on Americans.' So they brought out a budget which is going to increase taxes on Americans by about $700 billion, the largest tax increase in American history should it come to fruition. They mean what they say on the other side of the aisle.

What will that do to federal revenues, that dramatic increase in taxes? What will that do to the economy? We're not sure but we suspect it will slow the economy dramatically. Some of these great gains we've seen in the economy, the 7.8 million new jobs, may be significantly impacted by that type of a tax increase. We also know that it will create a tax code that is taking a lot more money from Americans who work hard. We happen to believe on our side of the aisle we should let Americans keep the money they earn as much as possible, have a fair tax system, and as a result generate a benefit to working Americans by saying, 'Listen, if you're going to work hard we're going to give you more money.' We're also going to get more revenues, which is the way this has worked out.

And why have we gotten more revenues even though we've reduced the tax burden on the American people? Well, the answer is pretty simple. It's called human nature. When you set tax levels at a fair level, which is what we have today, people are willing to go out and invest. They're willing to take risks. They're willing to work harder because they know they're going to keep more of what they earn. What does that do? It creates a stronger economy which puts more people to work, which is what we want -- more jobs for people. The more people that have jobs the more tax revenues you end up getting.

In addition, especially in the area of capital gains, if you have a fair capital gains rate, which is what we have today, it causes people to go out and sell an investment which they otherwise might hold on to. A person has an asset -- a home, small business or stock -- and they don't want to sell that asset when they're going to have to pay 30%, 25% in taxes on that sale because they don't want to have to pay taxes on that asset they spent their whole life building up, trying to make ends meet and trying to create a nest egg for themselves. When you put a fair rate on that, then people are willing to go out and sell that asset.

And when they sell that asset, what happens? Well, two things which are very good for the federal government happen. One, capital gains occur. So we get revenues. Otherwise we wouldn't get those revenues because people would sit on those assets. They're not going to sell them and pay the high tax rate. When you have a fair tax rate they sell them. The federal government gets the revenues. The other thing that happens is they take that new money they have from the sale of that asset and they reinvest it. By human nature they reinvest it in something that's more productive. So you have a more productive society where capital assets are being used more effectively.

As a result you get this great job creation and this economic growth. In fact, in the area of capital gains we've seen a dramatic increase in revenues. Capital gains have increased over what the projection was by CBO, the Congressional Budget Office, by 68%. That's a huge jump, a huge jump in revenues which we really didn't expect -- at least the Congressional Budget Office didn't expect -- but which we've received because human nature kicked in and people were willing to sell assets, take that money, reinvest it in things that are productive, create jobs. As a result we've got these revenues. That's why today the federal government is actually getting more in revenues than it got under the old tax law where the rates were a lot higher. And that's why we've gotten more economic expansion and more jobs. And so that's the good news.

From the other side of the aisle, we hear this constant patter, ‘Well, the rich aren't paying enough taxes and these tax laws are disproportionate in their application.’ I think we need to talk about that for a little bit because let's see what's happened as a result of reducing these tax rates. Basically what's happened is that even with the lower tax rates today wealthy people are paying more in revenues to the federal government than at any time in history. Today the top 20% of people in this country who have income are paying about 85% of the tax burden. Let me restate that. The top 20% of people with income in this country are paying 85% of the federal tax burden. Under the Clinton years, the top 20% of people with income paid 81% of the federal tax burden. So even though we've cut rates, we've actually created more revenue from high-income individuals.

Again, you're going to say how does that happen? Again, it's called human nature. If you have a high-income situation, an individual with a high income, they could either invest it in opportunities which are going to produce taxable events or not produce taxable events. I mean, they've got the position to do that. So if you have a fair tax rate, they'll take the risk. They'll make the decision. They'll be the entrepreneurs who create the job. And as a result, they'll make an investment which is taxable.

But if you have a tax rate that's too high, which is what the other side of the aisle likes to have, then you basically create an atmosphere with these folks are going to go out and invest a fair amount of their money in things that are tax avoidants. Legally tax avoidants. They're going to invest in non-taxable events -- stocks and bonds that don't generate income to them that's taxable. What we've done is created a tax law where essentially high-income people are willing to go out and take risks and do it in a taxable way, which generates revenue back to the United States. And as a result we have the top 20% of American income payers paying more in taxes today, significantly more than they did under the Clinton years.

And the alternative to this is also fairly interesting. At the low-income of the scale, the bottom 40% of people who have income don't basically pay taxes, income taxes. They pay obviously withholding tax. But as a practical matter, that segment of our society pays virtually nothing in income taxes. They get money back, in fact, under the Earned Income Tax Credit and other benefits that the federal government puts in place. Under the law today, under President Bush's law, those bottom 40% of income earners are now getting about twice as much back from the federal government as they did under the Clinton years.

So what's the combined effect of these two facts, of these two things? The tax law, even though we're generating a lot more revenue for the federal government, even though we're well over that mean number of 18.2% of Gross National Product, even though we've had jumps in revenue of 15%, 12%, 11%, we've actually got a tax law today that's generating more revenue but is also more progressive. High-income individuals are paying more of the tax burden. Low-income people are getting more money back from the federal government.

And there's another factor here that needs to be pointed out, and that's what's happening to senior citizens. Senior citizens disproportionately benefit from a low dividend tax rate. Why? Well, it's logical obviously. Most seniors are retired. If they have income, it's going to be social security action some pension program or dividends. And most pension programs also involve dividends. And so senior citizens are really the people who are benefiting the most from a low dividend tax rate. And yet, the folks on the other side of the aisle have just passed a budget where they want to jump the tax rate on dividends by 100%. They want to go from a 15% tax rate to a 40% tax rate on dividends. Who are they going to hit? They're going to hit senior citizens primarily. That's the people they're going to hit.

If you look at the proposals from the other side of the aisle, they come out with a 1930's philosophy of economics, which was pretty soundly rejected in the 1960, the 1970's, the 1980's and the 1990s'. It is this theorem that says you raise taxes and the federal government will get more money and we'll spend it for you. In other words, it's a theory that says, ‘We're smarter than you. We've been elected to the United States Senate. We're good members of the Democratic party. We know more than you know. Therefore, we should take your money and we should spend it for you, and we could spend it more effectively than you can spend it.’ Well, that's a philosophy that should and has been rejected as we move towards a much more market-oriented economy. It's also a philosophy that presumes higher taxes always generate more revenue to the federal government, which isn't true. Higher taxes actually in many instances reduce revenues to the federal government because they reduce economic activity. And they certainly reduce expansion of the economy. And they reduce the creation of jobs. Three presidents have proved beyond any reasonable doubt that when you lower income tax rates, you generate economic expansion because people are just people. They just have common sense, and they know if they're going to be able to keep more of their money they're willing to go out and work hard to get more money.

But we also know if the federal government is going to take more of their money and a disproportionate amount of their money, they're not going to work quite so hard. They're not going to take that risk, they're not going to create that restaurant, open that little small business, create those jobs because they don't want to pay all their money to the federal government. President Kennedy knew that, and that's why he cut income tax rates and was successful and generated revenue for the federal government. President Reagan knew that. He cut income tax rates, and as a result the revenues to the federal government jumped and the economy expanded. President Bush has shown it once again. Cut income tax rates, expand the economy. And as a result get a fair tax level and human nature kicks in and revenues flow into the federal treasury.

But what's unique about President Bush's initiatives are that at the same time that he's cut rates, created this much more progressive system which I just outlined. The fact that high-end income tax payers are now paying so much more than they did under the Clinton years of the federal share of income taxes and lower income individuals are getting much more back than they did under the Clinton years for a more progressive system. And it also disproportionately benefits senior citizens, people on fixed incomes, because of the dividend rate.

Unfortunately, though, we now have the Democrats presenting to us a budget which wants to take us to the French path, which is going to dramatically increase the cost of the federal government to Americans and dramatically increase the tax level on Americans. And we'll go down that path that France has gone down. And I have to tell you, it doesn't work in France. Productivity is not up in France. Jobs are not being created in France. People don't want to go out and work harder in France. And they certainly don't have a more progressive or effective economic system than we have here in the United States. So I think we should reject the Democratic approach under their budget of raising taxes and stay with the tax law that is generating new revenue, is progressive and has such a strong benefit for senior citizens.